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Message Text

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TO SECSTATE WASHDC NIACT IMMEDIATE 9228
INFO AMEMBASSY BRIDGETOWN
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SUBJECT: PRIME MINISTER SPEAKS ON JAMAICA'S FURTHER DEVALUATION

REFERENCE: KINGSTON 0326

1. SHORTLY AFTER FINANCE MINISTER DAVID COORE ANNOUNCED THAT THE JAMAICAN DOLLAR HAD BEEN DEVALUED FURTHER, PRIME MINISTER MICHAEL MANLEY ADDRESSED THE NATION ON RADIO AND TELE-VISION TO EXPLAIN THE NEED FOR THE CHANGE IN THE VALUE OF THE BOTH BASIC AND SPECIAL RATES (SEE REFTEL) AND TO ANNOUNCE MEASURES TAKEN TO REDUCE ITS IMPACT ON JAMAICA'S POOR.

2. THE PRIME MINISTER REVIEWED JAMAICA'S RELATIONS WITH THE INTERNATIONAL MONETARY FUND (IMF) AND THE KEY ROLE IT PLAYS FOR COUNTRIES LIKE JAMAICA WITH BALANCE-OF-PAYMENTS PROBLEMS. HE REMINDED LISTENERS OF JAMAICA'S SUCCESS IN
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DRIVING A RELATIVELY HARD BARGAIN WITH THE INTER-NATIONAL ORGANIZATION. HE POINTED OUT THAT THE AGREEMENT WITH THE IMF LAST SPRING HAD PERMITTED INTRODUCTION OF THE TWO-TIER EXCHANGE RATE SYSTEM RATHER THAN OUTRIGHT DEVALUATION WHICH THE IMF PREFERS. HE THEN ADVERTED TO THE SUCCESSES JAMAICA HAD ACHIEVED IN RE-ORDERING ITS ECONOMY BUT ADDED THAT THE KEY TO

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FUTURE IMPROVEMENT LIES WITH THE ABILITY TO OBTAIN FOREIGN EXCHANGE. HERE THE IMF IS CRUCIAL.

3. LIKE COORE, HE TOLD HIS LISTENERS THAT THE IMF HAD LAID DOWN CERTAIN PERFORMANCE TESTS FOR ONGOING SUPPORT BUT WHILE JAMAICA HAD MET THREE -- RE PUBLIC EXPENDITURE, PUBLIC BORROWING FROM THE BANKING SYSTEM AND FOREIGN EXCHANGE HOLDINGS -- IT HAD FAILED THE FOURTH -- THE NET DOMESTIC ASSETS TEST (SKEWED, SAID MANLEY, BECAUSE OF THE NEED FOR MORE MONEY TO CIRCULATE AT CHRISTMAS TIME). THUS, THE ORIGINAL AGREEMENT WITH THE IMF MUST BE REPLACED WITH A NEW ONE ESTABLISHING AN EXTENDED FUND FACILITY (EFF) FOR JAMAICA.

4. MANLEY SAID THAT THE FURTHER DEVALUATION WILL MEAN A PRICE RISE AVERAGING SIX PERCENT PER ANNUM. CONCERNED THAT PRICE RISES WILL FALL MOST HEAVILY ON THE POOR, MANLEY SAID THAT (A) MORE IMPORTS WILL BE CHANNELLED THROUGH THE STATE TRADING CORPORATION TO ENSURE ECONOMIES, (B) JAMAICA NUTRITION HOLDINGS WILL BE REQUIRED TO DRAW DOWN ITS PROFITS TO SUB-SIDIZE THE PRICES OF CERTAIN BASIC FOODSTUFFS, AND (C), IN ORDER TO AID THOSE AMONG THE POOREST WHO CAN BE DIRECTLY AFFECTED BY GOVERNMENT ACTION, THERE WILL BE INCREASES IN:
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(1) NATIONAL INSURANCE SCHEME PENSIONS;

(11) PUBLIC ASSISTANCE STIPENDS; AND

(111) THE MINIMUMWAGE.

THERE WILL BE NO INCREASE IN WAGES PAID WORKERS UNDER THE CRASH PROGRAM (THE GOJ'S WPA-TYPE PROGRAM) LEST EMPLOYMENT BE REDUCED.

5. COMMENT FOLLOWS IN SEPTEL.
IRVING

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